

FEDERAL COURT OF APPEAL

BETWEEN:

**THE ATTORNEY GENERAL OF CANADA and
THE COMMISSIONER OF PATENTS**

Appellants

- and -

AMAZON.COM, INC.

Respondent

-and-

**CANADIAN LIFE AND HEALTH INSURANCE ASSOCIATION INC. and
THE CANADIAN BANKERS ASSOCIATION**

Interveners

**RESPONDENT'S MEMORANDUM OF FACT AND LAW
IN REPLY TO THE INTERVENERS**

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Overview

1. This Memorandum is submitted on behalf of the Respondent in response to the Memorandum of Fact and Law of the Interveners.

2. In their Memorandum, the Interveners seek to inappropriately broaden the scope of this Appeal and burden this Court with considerations of the patentability of “abstract ideas” which are not at issue in this proceeding. Principally, the Interveners are concerned with the broad issue of the patentability of abstract financial calculations relevant to the banking and insurance industries that are unrelated to the central issue in this Appeal, namely, the subject-matter patentability of the Respondent’s patent application.

3. The Interveners attempt to advance arguments regarding the patentability of hypothetical examples wherein a computer is used merely as a calculating device to facilitate the performance of a particular abstract theorem. This is not the issue this Court has been called upon to decide. Indeed, this Appeal does not raise the issue of the patentability of “abstract ideas”, which are excluded from patentability pursuant to section 27(8) of the *Patent Act*.¹

4. The Respondent’s patent application at issue in this Appeal (the “’933 Application”),² claims more than a mere abstract idea or theorem. As Justice Phelan held in the court below, the claimed invention is a novel and inventive process which uses stored information and ‘cookies’ to enable customers to order items over the Internet.³ This process is put into action, necessarily, by a system of computers that exchange information in a novel, inventive way to produce a tangible, real-world result. The subject matter of the ’933 Application is therefore distinguishable from the hypothetical examples advanced by the Interveners.

5. In sum, this Court must decide the case before it and should not be burdened with considerations of unrelated, hypothetical patent applications pertaining to “abstract ideas” which are solely of interest to the Interveners. Indeed, it would appear that by way of the present intervention, the Interveners are seeking an advisory opinion from this Court as to the patentability of such

¹ See: Respondent’s Memorandum of Fact and Law (“RMOFL”) para. 107. Section 27(8) states that “No patent shall be granted for any mere scientific principle or abstract theorem”. The Commissioner has placed no reliance on section 27(8) in rejecting the claims of the application in issue.

² See: RMOFL paras. 6-14 for a review of the subject matter disclosed and claimed in the ’933 Application.

³ Reasons for Judgment and Judgment of Justice Phelan dated October 14, 2010 (“Phelan Judgment”) at para. 75, AB, Vol. 1, Tab 2.

subject matter. It is respectfully submitted that the Interveners should not be permitted to interfere with the Respondent's case in this manner, and distract the Court from considering the actual issues before the Court.

6. Responses to specific arguments raised by the Interveners are addressed in the sections of this Memorandum, below.

Improper Reliance on *Schlumberger*

7. The Interveners rely upon this Court's decision in *Schlumberger*⁴, the inapplicability of which the Respondent has discussed in detail in its Memorandum of Fact and Law.⁵ In particular, at paragraph 12 of their Memorandum the Interveners state that: "processing a formula or data using a calculator or computer does not transform previously unpatentable subject matter into a patentable 'art' or 'process'". As set out above, the invention claimed in the '933 Application is not an abstract idea which the Respondent seeks to "transform" into patentable subject matter by the mere addition of a computer to facilitate a calculation.

Improper Reliance on *Bilski* and the "Machine-or-Transformation" Test

8. The Interveners have significantly misstated the law in the US including the holdings in the *Bilski* CAFC⁶ and USSC⁷ decisions. In particular, the Interveners rely heavily on the CAFC decision in *Bilski*, arguing that the "machine-or-transformation" test espoused in that decision is the current law of the US in determining subject-matter patentability of a process under USC §101, and that the USSC "endorsed" it as a test that should be used "most of the time" (paragraph 22).

9. In fact, the USSC explicitly rejected the machine-or-transformation test as the sole, governing test in that jurisdiction. As Justice Phelan observed, the USSC rejected this test because it was in "violation of the expansive interpretation which should be given to §101".⁸ Indeed, the USSC held that the machine-or-transformation test is merely an "important example" or "clue" to determining patentability under §101, but rejected it as the governing test in the US particularly in

⁴ *Schlumberger Canada Ltd. v. Commissioner of Patents* (1981), 56 C.P.R. (2d) 204 (F.C.A.).

⁵ RMOFL at paras. 104-107.

⁶ *In re Bilski*, 88 USPQ 2d 1385 (Fed. Cir. 2008) ("*Bilski* CAFC").

⁷ *Bilski v. Kappos*, 130 S.Ct. 3218 (2010) ("*Bilski* USSC").

⁸ Phelan Judgment at para. 55.

view of the need for flexibility in the definition of a “process” under §101 to encompass ever-changing forms of technology.⁹

10. Particularly troubling is the Interveners’ conclusion that the claims in *Bilski* were held to be an abstract idea by the USSC as a result of the Court’s application of the machine or transformation test (paragraph 24). This is plainly not the case. While the USSC came to the conclusion that the claims in the *Bilski* application were directed to an abstract idea, it did so without application of the machine-or-transformation test.

11. Nevertheless, the Interveners advocate the machine-or-transformation test as the applicable test in Canada (see, e.g., paragraph 38(e) of the Interveners’ Memorandum).

12. Finally, the Interveners rely upon the concept of “post/extra solution activity” discussed by the CAFC and the USSC in *Bilski*. In this regard, the USSC references¹⁰ its earlier decisions in *Flook*¹¹ and *Diehr*¹² for the proposition that “the prohibition against patenting abstract ideas ‘cannot be circumvented by ... adding insignificant postsolution activity’”. Contrary to what is suggested at paragraph 23 of the Intervener’s Memorandum, the plurality decision of the USSC does not discuss whether the inclusion of computer components in a claim constitutes insignificant post-solution activity. A full discussion of this US legal concept is unnecessary, other than to state that the Respondent does not accept the Intervener’s characterization of the US law and its application. In any event, as discussed above, in the context of the ’933 Application, the computer systems are required to implement the methods and systems claimed, and are therefore not a mere “add-ons” which seek to transform an otherwise unpatentable abstract idea into something patentable.

⁹ In particular, the USSC held at 3227: “The machine-or-transformation test may well provide a sufficient basis for evaluating processes similar to those in the Industrial Age... But there are reasons to doubt whether the test should be the sole criterion for determining the patentability of inventions in the Information Age.” Further at 3227-28:“...as a result, in deciding whether previously unforeseen inventions qualify as patentable “processes” it may not make sense to require courts to confine themselves to asking the questions posed by the machine-or-transformation test”. Further, the Interveners’ conclusion that the USSC rejected the machine-or-transformation as the sole test partly on the basis of § 273(b)(1) (see Interveners’ Memorandum at footnote 25) is not entirely accurate – the USSC in fact considered this provision in the general context of deciding that business methods *per se* should not be excluded from patentability (at 3228). It is worth noting that the CAFC in *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) had reached a similar conclusion regarding the *per se* exclusion of business methods prior to the enactment of § 273(b)(1).

¹⁰ *Bilski* USSC at 3230.

¹¹ *Parker v. Flook*, 98 S.Ct. 2522 (1978).

¹² *Diamond v. Diehr*, 450 U. S. 175 (1981).

The Interveners' Hypothetical "Claim Examples"

13. The Interveners rely upon three hypothetical examples in which a computer has been added to a claim related to a financial calculation. As set out above, it is inappropriate for this Court to consider the Interveners' hypothetical examples in the context of this Appeal.¹³

14. An invention which incorporates a computer to manipulate data or to perform a function that is integral to the practical embodiment (or real world use) of a novel, inventive method in relation to a financial or like application may well be patentable pursuant to *Shell Oil* and *Progressive Games*. However, the Court will be required to consider, in the context of such a case, the proper construction of the actual claims that might be in issue, and whether section 27(8) of the *Patent Act* has application in the circumstances.

15. In any event, it is clear that the '933 Application does not seek to patent pure mental steps -- it does not solve an equation or insert numbers into a formula. The examples cited by the Interveners are not analogous to the '933 Application, and do not assist in deciding this Appeal.

The Interveners' Proposed "Test"

16. The Interveners, at paragraph 38 of their Memorandum, outline a proposed framework for a test that this Court will "need to answer in order to determine the issues in this Appeal". The Respondent notes that these questions, as framed, are abstract and would require this Court to consider broader issues than are necessary for the purposes of disposing of this Appeal. In any event, this test is inconsistent with established principles of Canadian law or irrelevant to this Appeal.

- (a) The Interveners argue any expansion of patentability beyond the traditional meanings in section 2 should be left to Parliament. However, Justice Phelan's decision was not an expansion of the recognized categories of patentable subject matter – it was merely an application of the definition of a patentable "art" as defined by the Supreme Court and this Court in *Shell Oil* and *Progressive Games*.

¹³ The Respondent further observes that the Interveners have relied upon an abandoned Canadian patent application and a US patent, neither of which are specifically identified by application or patent number. While perhaps within the letter of the Order of Trudel J.A. granting intervention, which ordered the Interveners not to make reference "to pending third party patent applications" (para. 2(iv) of Order dated April 8, 2011, emphasis added), the Respondent questions whether such references are within the spirit of that Order.

- (b) The Interveners argue on the basis of *Schlumberger* that mental processes and ideas are not patentable. However, as discussed above, this holding has no relevance to the '933 Application at issue on this Appeal.
- (c) The Interveners argue that abstract concepts or numerical data that is merely stored, moved or recalculated in a series of mental steps is not patentable pursuant to *Schlumberger* or *Bilski*. This argument, again, has no relevance to the current case. In any event, the Interveners suggest principles that are broader than the holdings in either case.
- (d) The Interveners argue that "what has been invented must be considered". This is merely a restatement of the Appellants' argument, which the Respondent has responded to in its Memorandum.¹⁴
- (e) The Interveners argue that *Lawson* is still the "right guide post" for computer implemented inventions. However, as held by Justice Phelan (and this Court in *Progressive Games*), the Supreme Court's decision in *Shell Oil*, not *Lawson*, is the guiding authority for determining a patentable art under Canadian law. The Interveners' restrictive approach has also been rejected by the USSC in *Bilski*.
- (f) The Interveners argue that where a computer is used to carry out an idea but forms no part of the invention, the necessary physical structure must be found elsewhere than in the use of the computer. As discussed above, this argument has no application to the current case.
- (g) The Interveners argue that the movement/arrangement of data in a computer is an unpatentable mental process. As discussed above, Parliament has spoken on this issue in section 27(8), which is not applicable to '933 Application.
- (h) Finally, the Interveners argue that Justice Phelan effectively held that the mere supply of a computer implementation provides the requisite manifestation, effect or change of character, and that this would provide no practical limitation to claiming abstract ideas when performed on a computer. However, it is clear that on this point, Justice Phelan assessed the claims in a purposive manner and understood that the invention and the claims (however construed) incorporated novel and inventive elements which amounted to the requisite manifestation of change, effect or change of character.

Conclusion

17. For the reasons set out above, the Respondent repeats its request that this Appeal be dismissed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 9th day of May, 2011.



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Solicitors for the Respondent

¹⁴ See: RMOFL paras. 47-65.

AUTHORITIES

1. *Patent Act*, R.S.C. 1985, c. P-4, s. 27(8)
2. *Schlumberger Canada Ltd. v. Commissioner of Patents* (1981), 56 C.P.R. (2d) 204 (F.C.A.)
3. *In re Bilski*, 88 USPQ 2d 1385 (Fed. Cir. 2008)
4. *Bilski v. Kappos*, 130 S.Ct. 3218 (2010)
5. *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998)